



October 24, 1973

MEMORANDUM FOR Secretary James R. Schlesinger
Secretary William P. Clements, Jr.

SUBJECT: Effect of Arab cutbacks and embargoes

Saudi Arabia, Algeria, Libya, Abu Dhabi, Bahrain, Qatar, Kuwait, and Dubai have embargoed oil sales to the U. S. as well as to areas that use crude for delivery to the U. S. (offshore refineries). They have also ordered additional production cutbacks across the board. The net result of these acts is a 4 million barrel per day reduction (9%) of the free world supply of oil.

In addition, Kuwait and Algeria have just embargoed the Netherlands, further reducing supply by .5 MBD, for a total of 4.5 MBD.

The Persian Gulf producers, meeting in London yesterday, independently arrived at a shortfall of 4.65 MBD.

The embargoes are to be strictly enforced, with no substitutions or pro-rating for offshore refineries.

Recognizing "ripple effects", the shortages will be distributed approximately as follows:

<u>Country</u>	<u>Net loss</u>	<u>Current Consumption</u>	<u>Percent decrease in Consumption</u>
U. S. A.	3 MBD	17 MBD	18%
Europe	1 MBD	14 MBD	7%
Japan	.5 MBD	5 MBD	10%

The "pipeline" is about three weeks long, i. e., deliveries to consumers will be running 18% short by November 15.

Shortages will be worse unless air quality standards are temporarily relaxed, since the curtailed production was low-sulfur crude.

The Arabs have indicated a willingness to end these cutbacks when Israel "returns to its pre-1967 borders", not upon a cease-fire.

Almost unnoticed in this difficulty, most Arab countries have also virtually doubled the posted price of that crude which is delivered. The results will seriously unsettle the consuming nations' balance of payments.

OSD REVIEW
COMPLETED

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of Defense

Attachment

SECRETSources of U.S. Oil, in millions of barrels per dayCrude Oil Imports

All Arab countries	1.06	6.1%
Canada	.96	5.5
Nigeria	.48	2.8
Venezuela	.39	2.2
Indonesia	.25	1.4
Iran	.23	1.3
All other	.13	.7
Total	3.5	20%

Product Imports

Caribbean* & Cent. Amer.	1.21	7.0%
Venezuela	.74	4.1
Canada	.33	1.9
Europe	.28	1.6
So. America	.22	1.3
All Arab countries	.10	.6
All other	.08	.5
Total	3.0	17%

U.S. Crude	9.6	56%
U.S. Gas Liquid Products	1.7	10%
Inventory Buildup	(.5)	(3)%
Total U.S. Consumption	17.3	100%

* "Offshore" refineries in Trinidad, Netherlands Antilles, Aruba, Virgin Islands, Puerto Rico, etc.